

OPEN MEETING AGENDA ITEM



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Arizona Corporation Commission

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ORIGINAL

**Tucson Electric Power Company**

88 East Broadway, P. O. Box 711

Tucson, Arizona 85702

November 14, 2011

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ARIZONA CORPORATION COMMISSION  
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Commissioner Sandra Kennedy  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Re: Tucson Electric Power Company 2012 REST Plan –  
Responses to Questions Posed during November 8, 2011 Open Meeting

Dear Commissioner Kennedy:

This letter responds to the questions you raised during the November 8, 2011 Open Meeting. Tucson Electric Power Company ("TEP") appreciates the opportunity to provide you with additional information regarding TEP's 2012 Renewable Energy Standard ("REST") Implementation Plan.

1. **Please provide information on what is covered by the research and development (R&D) budget.**

Jo Smith, our Regulatory Services Director, has provided you with a copy of our REST Implementation Plan, which includes detailed descriptions of our R&D projects. I understand this approach is acceptable as a starting point. Please let us know if you have further questions after you review the REST Implementation Plan.

2. **Will TEP work with Commission Staff to address issues related to REST Distributed Generation requirements during the 2013-2015 period?**

TEP intends to work with Staff to address these issues. TEP believes these issues are complex and may implicate potential revisions to the REST Rules and the terms of TEP's 2008 rate case settlement, among other things. TEP agrees with Staff's recommendation that the matter should be addressed in connection with TEP's 2013 REST Plan.

3. **Has TEP investigated using solar panel electric poles like those used in New Jersey?**

TEP currently has several of the New Jersey-style, pole-mounted systems in its test yard facility. In the latter half of 2010, TEP explored the possibility of adding the poles to its system. However, the purchase cost was estimated to be about \$10 per watt before installation, almost twice as much as a typical photovoltaic (PV) installation in our service area.

TEP did purchase a few systems for testing at our test yard facility in Tucson. Initially, it appears the efficiency of these systems is lower than a typical PV crystalline installation. We are reviewing the production data and will provide results to the Commission as soon as possible.

Moreover, Public Service Electric & Gas (PSEG), a utility headquartered in Newark, New Jersey, has reported it plans to install approximately 200,000 panels. Each pole-mounted panel is rated at 200 kilowatts (kW), meaning that it intends to install approximately 40 megawatts of capacity at a cost of \$515 million. This represents an average installed cost of approximately \$12.75-\$13 per watt.

**4. Why shouldn't TEP invest in renewable systems and wait for recovery until the next rate case?**

There is a fundamental difference in the development of generation assets to meet customer load and the development of Commission-mandated renewable resources that are not required to meet current customer load. The current Renewable Energy Standard is a Commission-mandated procurement process – one not based on the utility's need to procure energy to serve increasing customer load. Based on the generation requirements to serve customers, the Company would not be building additional generation at this time except to comply with the Commission-mandated Renewable Energy Standard. Presently, TEP's load is flat. Moreover, renewable generation, such as photovoltaic generation, is significantly more expensive and capital intensive than many other types of generation and market-based wholesale power. Increased renewable generation results in higher power costs. Without increasing customer demand, TEP is unable to generate any additional revenues to cover the increased costs of the mandated renewable generation. It is not reasonable to expect the utility to make significant capital investments for a Commission mandate without a mechanism for timely recovery of the costs of the excess generation.

**5. What schools will receive benefits from the Schools Vocational Program in 2011 and which schools might be included in 2012?**

The following 13 schools located in nine school districts have been approved to receive a solar system through our 2011 schools program. Some systems have been installed while work on others is ongoing. The schools include:

- Tucson Unified School District: Sahuaro High School, Pueblo High School, Cholla High School, Sabino High School, Santa Rita High School
- Flowing Wells School District: Flowing Wells High School
- Amphitheatre School District: Canyon Del Oro High School
- Arizona School for the Deaf and Blind
- Tanque Verde School District: Tanque Verde High School
- Sunnyside School District: Desert View High School
- Catalina Foothills School District: Orange Groove Middle School
- Marana Unified School District: Mountain View High School
- Vail School District: Cienega High School

Commissioner Sandra Kennedy

November 14, 2011

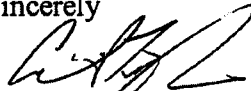
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The Company allowed each school district to determine locations for the solar systems in 2011. Ideally, the remaining public high schools in our service territory will receive a system in 2012 if the program is approved. Potential installation sites include:

- Tucson Unified School District: Catalina High School, Rincon High School, Tucson Magnet High School, Palo Verde High School, University High School,
- Vail Unified School District: Vail High School
- Amphitheater School District: Ironwood Ridge High School; Amphitheater High School
- Sunnyside Unified School District: Sunnyside High School
- Catalina Foothills School District: Catalina Foothills High School
- Sahuarita School District: Sahuarita High School
- Vail School District: Empire High School

If you have additional questions, please do not hesitate to contact me.

Sincerely



Carmine Tilghman

Director of Renewable Resources

CT:mi

cc: Docket Control (Original and 13 copies)

Chairman Gary Pierce

Commissioner Bob Stump

Commissioner Paul Newman

Commissioner Brenda Burns

Parties of Record